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Accounting Research Association newsletter

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, 666 FIFTH AVE., NEW YORK, N.Y. 10019

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APB APPROVES TWO DRAFTS FOR EXPOSURE

Draft Opinions for imputing interest on long-term notes and standardizing reporting of changes in accounting methods were approved for exposure by the Accounting Principles Board at its January meeting.

Imputing Interest on Long-Term Receivables and Payables: This proposal would apply mainly to purchases and sales of major assets, such as a building or a plant, where the seller takes back a long-term note bearing no interest or an interest rate much lower than the prevailing current rate for a comparable note. Under the draft Opinion, the sale price and amount of the note would be reduced to the present value of the note, using an imputed rate of interest. (See ARA Newsletter, Sept. 17, 1970)

The effect for the seller would be to report a lower immediate profit on the sale, with the reduction ultimately reported as interest income over the term of the note. The effect for the buyer would be to report a lower cost of the asset, with correspondingly lower depreciation expense over the life of the asset and higher interest expense over the term of the note.

Accounting Changes: Accounting changes would be restricted to situations where it can be demonstrated that the new method will provide more useful information to investors than the former one. (See ARA Newsletter, May 14, 1970)

The cumulative effect of the difference between the former accounting and retroactive application of the new method, would be reported as a separate item appearing just above net income for the year. Financial statements of prior years would not be restated, but the effect of the change on those years would be disclosed as supplemental information. However, the proposal would permit a company to adopt a new method of amortization for new assets and continue use of the old method for old assets of the same class; in this case the adoption does not require a retroactive adjustment. Copies will be mailed to all Institute members in early February. Comments on imputed interest are due by May 1 and on accounting changes by May 15.

OTHER BOARD ACTIONS

Corporate Compensation Plans: High priority will be given to issuing an Opinion on stock compensation plans and stock options. Meanwhile, the staff will issue an unofficial interpretation of the Board's tentative view on "phantom" plans, which are not covered under ARB 43. This interpretation will call for the recognition of compensation cost unless the plan provides payment for shares issued in an amount at least equal to the fair value of the shares at the date of grant. Also, it will state that corporate tax benefits allocated to income should be limited to the tax benefit related to compensation recognized for accounting purposes, with any additional tax benefit allocated to capital.

(continued)

Retirement of Debt: A revised draft will be prepared to extend the scope of the Opinion to the early extinguishment of all debt, rather than limiting it to convertible debt as originally contemplated.

Non-Cash Transactions: A point outline on accounting for transfers of non-cash assets to owners and transfers and exchanges of such assets with other than owners was approved for submission to participating groups for comment. Copies are available to Institute members upon request to the APB office at the Institute.

Marketable Securities: A "hearing" on marketable equity securities will be held on May 25-26. The Board is preparing a discussion memorandum on the subject and participants will be expected to develop position papers prior to the "hearing."

TWO AUDIT GUIDES READY FOR EXPOSURE

Hospital Audit Guide: New exposure draft is now being distributed. Principal modifications from the earlier draft are in the areas of income statement format, balance sheet treatment of unrestricted funds and reporting on funds held in trust by others. Persons wishing to comment on the guide may obtain copies from the Institute's Technical Services Division. Comments are due by March 15.

Savings and Loan Associations: Pending final revisions, an exposure draft of a new edition should be available from the Institute's Technical Services Division in late February. The proposed guide covers general information about the nature of the industry, the effect of regulations, proper accounting methods and suggested auditing procedures. It includes illustrative statements for both mutual and stock associations. Some of the significant matters discussed are:

- Recognition of gains and losses on the sale of securities and of loans or participants.
- Accounting for real estate owned, including that acquired through foreclosure, by deed in lieu of foreclosure, or acquired for development. Gains and losses on the sale of REO are also covered.
- Accounting for prepayments to Federal Savings and Loan Insurance Corporation.
- Classification of general reserves in the equity section of the balance sheet.
- Segregation of net income, in total and earnings per share, into appropriated and unappropriated amounts.

After reviewing comments on the proposed exposure draft, the committee is expected to issue a final guide this summer.

TWO CPAS APPOINTED TO COST ACCOUNTING STANDARDS BOARD

Herman W. Bevis, former senior partner of Price Waterhouse & Co. and Professor Robert K. Mautz, of the University of Illinois, have been appointed to the newly created CASB. The Board, under the chairmanship of Comptroller General Elmer B. Staats, will develop cost accounting standards for defense contracts. The other two appointees are Charles A. Dana, the Raytheon Company, and Assistant Secretary Robert C. Moot of the Department of Defense.